

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JACKSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Jackson County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects. In accordance with OMB Circular A-133, we have issued a qualified opinion on compliance for the National Oceanic and Atmospheric Administration PRIDE program.

Financial Condition:

Fund balances increased by \$588,688 from the beginning of the year, resulting in a cash surplus of \$936,404 as of June 30, 2003.

Debt Obligations:

Capital lease principal agreements totaled \$398,122 as of June 30, 2003. Future principal and interest payments of \$411,266 are needed to meet these obligations.

Total principal on the Kentucky Infrastructure Authority loan obtained by Jackson County on behalf of the Jackson County Water Association, Inc. as of June 30, 2003, was \$1,178,163. Future principal and interest payments of \$1,382,391 are needed to meet this obligation. Pursuant to an agreement between Jackson County and the Jackson County Water Association, Inc., the Jackson County Water Association, Inc. is responsible for making the debt service payments.

Report Comments:

- The Fiscal Court Should Amend Budget For Expenditure Of Unanticipated Receipts
- The Jailer Should Maintain Accurate Records For The Jail Canteen Account And Report Annually To The County Treasurer
- PRIDE Grant Funds Should Be Expended As Close As Administratively Possible To The Date Funds Were Received By The County

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Jackson County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund type; the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type; and the related statement of cash flows - proprietary fund type for the year then ended. These financial statements are the responsibility of the Jackson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Jackson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity as of June 30, 2003 of Jackson County, Kentucky, and the revenues received and expenditures paid and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2004 on our consideration of Jackson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Jackson County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Amend Budget For Expenditure Of Unanticipated Receipts
- The Jailer Should Maintain Accurate Records For The Jail Canteen Account And Report Annually To The County Treasurer
- PRIDE Grant Funds Should Be Expended As Close As Administratively Possible To The Date Funds Were Received By The County

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 10, 2004

JACKSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Tommy Slone	County Judge/Executive
Leon Bingham	Magistrate
Vester Rose	Magistrate
Edward Morgan	Magistrate

Other Elected Officials:

George T. Hays	County Attorney
Ronnie Gabbard	Jailer
Donald Moore	County Clerk
Bobby G. Morris	Circuit Court Clerk
Tim Fee	Sheriff
Paul N. Rose	Property Valuation Administrator
Melvin Lakes	Coroner

Appointed Personnel:

Patricia Gabbard	County Treasurer
William Gay	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

JACKSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 881,163	\$ 54,752	\$ 2,401	\$ 938,316
Total Assets	\$ 881,163	\$ 54,752	\$ 2,401	\$ 938,316
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Capital Leases - Principal	\$ 398,122	\$	\$	\$ 398,122
Loan Payments	1,178,163			1,178,163
Total Other Resources	\$ 1,576,285	\$ 0	\$ 0	\$ 1,576,285
Total Assets and Other Resources	<u>\$ 2,457,448</u>	<u>\$ 54,752</u>	<u>\$ 2,401</u>	<u>\$ 2,514,601</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Leases (Note 4)	\$ 398,122	\$	\$	\$ 398,122
Loan Payable (Note 5)	1,178,163			1,178,163
Payroll Liabilities	1,912			1,912
Total Liabilities	<u>\$ 1,578,197</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,578,197</u>
<u>Equity</u>				
Retained Earnings	\$	\$	\$ 2,401	\$ 2,401
Fund Balances:				
Reserved	71,686	54,752		126,438
Unreserved	807,565			807,565
Total Equity	<u>\$ 879,251</u>	<u>\$ 54,752</u>	<u>\$</u>	<u>\$ 934,003</u>
Total Liabilities and Equity	<u>\$ 2,457,448</u>	<u>\$ 54,752</u>	<u>\$</u>	<u>\$ 2,512,200</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

JACKSON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

	General Fund Types				
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>					
Schedule of Operating Revenue	\$ 3,212,123	\$ 1,238,364	\$ 1,410,467	\$ 61,288	\$ 96,575
Other Financing Sources:					
Transfers In	285,234	79,234		200,000	
KADD Financing Trust Lease Proceeds	295,000				
Total Cash Receipts	<u>\$ 3,792,357</u>	<u>\$ 1,317,598</u>	<u>\$ 1,410,467</u>	<u>\$ 261,288</u>	<u>\$ 96,575</u>
<u>Cash Disbursements</u>					
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,556,900	\$ 1,021,645	\$ 844,321	\$ 261,570	\$ 69,766
Other Financing Uses:					
Schedule of Recreation and Parks Fund Expenditures	22,547				
Transfers Out	285,234	200,000	79,234		6,000
Schedule of KADD Financing Trust Lease Fund Expenditures	20,000				
Capital Leases - Principal	44,045	28,091	15,954		
KADD Financing Trust - Principal	275,000				
Total Cash Disbursements	<u>\$ 3,203,726</u>	<u>\$ 1,249,736</u>	<u>\$ 939,509</u>	<u>\$ 261,570</u>	<u>\$ 75,766</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 588,631	\$ 67,862	\$ 470,958	\$ (282)	\$ 20,809
Cash Balance - July 1, 2002	<u>345,372</u>	<u>148,536</u>	<u>84,493</u>	<u>4,908</u>	<u>10,281</u>
Cash Balance - June 30, 2003	<u>\$ 934,003</u>	<u>\$ 216,398</u>	<u>\$ 555,451</u>	<u>\$ 4,626</u>	<u>\$ 31,090</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE
For The Fiscal Year Ended June 30, 2003
(Continued)

General Fund Types			Special Revenue Fund Types		Special Revenue Fund Type
Forestry Fund	Transfer Station Fund	KADD Financing Trust Lease Fund	DES Fund	Special Grant Fund	Recreation and Parks Fund
\$ 3,548	\$ 317,758	\$	\$ 49,263	\$ 10,261	\$ 24,599
		295,000			6,000
\$ 3,548	\$ 317,758	\$ 295,000	\$ 49,263	\$ 10,261	\$ 30,599
\$ 2,414	\$ 277,221	\$	\$ 79,963	\$	\$
		20,000			22,547
		275,000			
\$ 2,414	\$ 277,221	\$ 295,000	\$ 79,963	\$ 0	\$ 22,547
\$ 1,134	\$ 40,537	\$	\$ (30,700)	\$ 10,261	\$ 8,052
196	29,819		56,314		10,825
\$ 1,330	\$ 70,356	\$ 0	\$ 25,614	\$ 10,261	\$ 18,877

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

JACKSON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Receipts - Jail Canteen	\$ 23,584
Total Cash Receipts	\$ 23,584
 <u>Cash Disbursements</u>	
Expenditures - Jail Canteen	\$ 23,527
Total Cash Disbursements	\$ 23,527
Excess of Cash Receipts Over Cash Disbursements	\$ 57
Cash Balance - July 1, 2002	2,344
Cash Balance - June 30, 2003	\$ 2,401

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

JACKSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Operating Income	<u>\$ 57</u>
Net Cash Provided By Operating Activities	<u>\$ 57</u>
Net Increase in Cash and Cash Equivalents	\$ 57
Cash and Cash Equivalents - July 1, 2002	<u>2,344</u>
Cash and Cash Equivalents - June 30, 2003	<u><u>\$ 2,401</u></u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Jackson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the KADD Financing Trust Lease Fund and the Jackson County Recreation and Parks Board as part of the reporting entity.

The KADD Financing Trust Lease Fund is established for the Fiscal Court for the purpose of providing financing for approved projects and is maintained by a third party trustee on the Fiscal Court's behalf; therefore, management must include this fund as a part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

The Jackson County Recreation and Parks Board is established for the purpose of maintaining and overseeing the day-to-day operations of the county parks. The Jackson County Fiscal Court is financially accountable for the Board; therefore, management must include the Board as part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

Additional - Jackson County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Jackson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Jackson County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Jackson County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Forestry Fund, Transfer Station Fund, and the KADD Financing Trust Lease Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Jackson County Special Revenue Fund Type includes the following county funds: DES Fund, Special Grant Fund, and Recreation and Parks Fund.

3) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Jackson County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Jackson County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the KADD Financing Trust Lease Fund and the Recreation and Parks Fund. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit. For the purpose of the statement of cash flows, the County considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Jointly Governed Organizations

The Jackson County McKee Industrial Development Authority, whose purpose is to acquire and develop industrial sites and plants for the community, is a joint board of the County and City. The County Judge/Executive, with the approval of fiscal court, appoints three members and the Mayor, with the approval of the city council, appoints three members. The County has no equity interest. The County did not contribute any funds to the Jackson County McKee Industrial Development Authority for the year ended June 30, 2003.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Capital Lease Agreements

- A. On May 8, 2000, the Jackson County Fiscal Court entered into a 4-year leasing agreement with Caterpillar Financial Services for a loader. Principal payments are due monthly.

Fiscal Year Ending June 30	Scheduled Interest	Principal Payment
2004	\$ 434	\$ 14,128

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Capital Lease Agreements (Continued)

- B. On September 17, 2002, the Jackson County Fiscal Court entered into a 3-year leasing agreement with Farmer's Bank and Capital Trust Co. for the purchase of an ambulance. Principal payments are due monthly.

Fiscal Year Ending June 30	Scheduled Interest	Principal Amount
2004	\$ 788	\$ 8,960
2005	447	11,251
2006	24	3,875
Totals	\$ 1,259	\$ 24,086

- C. On February 20, 2003, the Jackson County Fiscal Court entered into a 5-year leasing agreement with Brandeis Machinery and Supply Company for the purchase of a wheel loader. Principal payments are due monthly.

Fiscal Year Ending June 30	Scheduled Interest	Principal Amount
2004	\$ 3,054	\$ 11,435
2005	1,910	12,578
2006	1,397	13,091
2007	864	13,624
2008	309	14,180
Totals	\$ 7,534	\$ 64,908

- D. On June 4, 2003, the Jackson County Fiscal Court entered into a 1-year leasing agreement with the Kentucky Area Development (KADD) Financing Trust to refinance a previous KADD lease dated July 5, 2001. The proceeds of the original lease were used to purchase land for a new county courthouse. The principal payment is due April 20, 2004.

Fiscal Year Ending June 30	Scheduled Interest and Fees	Principal Amount
2004	\$ 3,917	\$ 295,000

Total Capital Lease Agreements as of June 30, 2003	\$ 398,122
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JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Loan Payable

In October 1993, the county obtained a Water Resources Loan from the Kentucky Infrastructure Authority (KIA) on behalf of the Jackson County Water Association. The loan was to provide for two, 100,000-gallon storage tanks, two pump stations, modifications of two existing pump stations, telemetry for these systems, and 19.8 miles of water distribution lines to serve 253 new customers. Although the county borrowed on behalf of the Jackson County Water Association, the Water Association is responsible for maintaining the expansion improvements, collecting related water revenues, and making the debt service payments. The total loan amount was \$1,792,633 and is to be paid over a period of 20 years at an interest rate of 2.45% per year beginning December 1, 1995. Debt service payments are due from the Water Association on December 1 and June 1. As of June 30, 2003, the Jackson County Water Association was in compliance with the terms of the loan and the outstanding principal balance was \$1,178,163.

Note 6. Insurance

For the fiscal year ended June 30, 2003, Jackson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

JACKSON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,165,246	\$ 1,238,364	\$ 73,118
Road and Bridge Fund	961,608	1,410,467	448,859
Jail Fund	58,491	61,288	2,797
Local Government Economic Assistance Fund	76,150	96,575	20,425
Forestry Fund	2,000	3,548	1,548
Transfer Station Fund	252,500	317,758	65,258
<u>Special Revenue Fund Type</u>			
DES Fund	60,000	49,263	(10,737)
Federal Grants Fund	970,000		(970,000)
Totals	<u>\$ 3,545,995</u>	<u>\$ 3,177,263</u>	<u>\$ (368,732)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,545,995
Add: Budgeted Prior Year Surplus			186,000
Less: Other Financing Uses			<u>(19,100)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,712,895</u>

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SCHEDULE OF OPERATING REVENUE

JACKSON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Revenue Categories</u>	<u>GOVERNMENTAL FUND TYPES</u>		<u>Totals (Memorandum Only)</u>
	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	
Taxes	\$ 655,860	\$	\$ 655,860
In Lieu Tax Payments	165,942		165,942
Excess Fees	42,048		42,048
Intergovernmental Revenues	1,926,013	64,869	1,990,882
Charges for Services	302,518	9,438	311,956
Miscellaneous Revenues		9,731	9,731
Interest Earned	35,619	85	35,704
Total Operating Revenue	<u>\$ 3,128,000</u>	<u>\$ 84,123</u>	<u>\$ 3,212,123</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

JACKSON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 422,895	\$ 407,248	\$ 15,647
Protection to Persons and Property	495,743	419,155	76,588
General Health and Sanitation	556,850	563,638	(6,788)
Social Services	2,500	2,500	
Recreation and Culture	50,963	14,676	36,287
Roads	775,302	765,201	10,101
Debt Service	5,400	1,666	3,734
Administration	348,242	302,853	45,389
Total Operating Budget - General Fund Type	\$ 2,657,895	\$ 2,476,937	\$ 180,958
Other Financing Uses:			
Capital Lease Agreements-			
Principal on Leases	19,100	44,045	(24,945)
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 2,676,995</u>	<u>\$ 2,520,982</u>	<u>\$ 156,013</u>

JACKSON COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

<u>Expenditure Categories</u>	<u>SPECIAL REVENUE FUND TYPE</u>		
	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Protection to Persons and Property	\$ 85,000	\$ 79,963	\$ 5,037
General Health and Sanitation	<u>970,000</u>		<u>970,000</u>
 TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	 <u>\$ 1,055,000</u>	 <u>\$ 79,963</u>	 <u>\$ 975,037</u>

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SCHEDULE OF RECREATION AND PARKS FUND EXPENDITURES

JACKSON COUNTY
SCHEDULE OF RECREATION AND PARKS FUND EXPENDITURES

For The Fiscal Year Ended June 30, 2003

<u>Expenditure Items</u>	
Maintenance and Repairs	\$ 3,812
Equipment	2,823
Utilities	5,070
Refund	35
Supplies	83
Playground Equipment	10,689
Dues	10
Miscellaneous	<u>25</u>
Totals	<u>\$ 22,547</u>

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SCHEDULE OF KADD FINANCING TRUST LEASE FUND EXPENDITURES

JACKSON COUNTY
SCHEDULE OF KADD FINANCING TRUST LEASE FUND EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Items

KADD Lease Agreement -	
Interest	\$ 14,100
Underwriter's Discount	2,950
Cost of Issuance Fees	<u>2,950</u>
Totals	<u><u>\$ 20,000</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Slone, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Jackson County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Jackson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- Reference Number 2003-1: The Fiscal Court Should Amend Budget For Expenditure Of Unanticipated Receipts
- Reference Number 2003-2: The Jailer Should Maintain Accurate Records For The Jail Canteen Account And Report Annually To The County Treasurer

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jackson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 10, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Slone, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Jackson County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Jackson County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Jackson County's management. Our responsibility is to express an opinion on Jackson County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jackson County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Jackson County's compliance with those requirements.

As described in item 2003-3 in the accompanying schedule of findings and questioned costs, Jackson County did not comply with requirements regarding cash management that are applicable to its National Oceanic and Atmospheric Administration PRIDE Program. Compliance with such requirements is necessary, in our opinion, for Jackson County to comply with the requirements applicable to the program.

In our opinion, except for the noncompliance described in the preceding paragraph, Jackson County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Jackson County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Jackson County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 10, 2004

FINDINGS AND QUESTIONED COSTS

JACKSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Jackson County.
2. No reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Jackson County were disclosed during the audit.
4. No reportable conditions disclosed during the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards program for Jackson County expresses a qualified opinion.
6. Audit findings relative to the major federal awards programs for Jackson County are reported in Part C of this schedule.
7. The program tested as a major program was: PRIDE SuperGrant and Community Grant Programs - CFDA #11.469
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Jackson County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS:

None.

NONCOMPLIANCES:

Reference Number 2003-1

The Fiscal Court Should Amend Budget For Expenditure Of Unanticipated Receipts

The Transfer Station Fund budget was overspent by \$14,722. By preparing an amendment in accordance with KRS 68.280 to the Transfer Station Fund budget for expenditure of receipts unanticipated in the original budget, the Fiscal Court could have avoided being in violation of KRS 68.300 which states any expenditures in excess of any budgeted fund shall be void. We recommend the Fiscal Court comply with KRS 68.280 and KRS 68.300.

County Judge/Executive Tommy Slones's Response:

I had this amount in the computer with another amendment, but failed to present it to Court.

JACKSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2003-2

The Jailer Should Maintain Accurate Records For the Jail Canteen Account And Report Annually To The County Treasurer

In July 2002, the Jailer gave the County Treasurer \$3,321 in cash receipts, indicating the cash was Jail Canteen receipts. The County Treasurer had not been previously informed of the existence of a Jail Canteen. Upon further inquiry, we determined a Jail Canteen bank account had been in existence since September 2000. Based on the lack of sufficient records and documentation, we were unable to determine if Jail Canteen receipts and expenditures were fairly stated. The following deficiencies were noted:

- While daily checkouts are being prepared, they are not being reconciled to bank deposits. We compared one month's daily checkouts to the bank deposits, noting deposits exceeded checkouts by \$2,097 and only four deposits were made during the month.
- Monthly bank reconciliations are not prepared nor are Receipts and Disbursements Journals being reconciled to the official bank account.
- Adequate documentation was not maintained on all disbursements. Of the thirteen disbursements we tested, two did not have supporting documentation. One tested disbursement for \$236 was to Office Depot for a printer that should have been paid from the Jail Fund. The County Treasurer issued a check from the Jail Fund to the Jailer for reimbursement for the printer. We were unable to verify whether the Jailer reimbursed the Jail Canteen for purchase of the printer.
- The Jailer could not provide us with substantiating documentation for the \$3,321 of cash receipts he turned over to the County Treasurer in July 2002. If these receipts were Jail Canteen receipts, KRS 441.135 states, "all profits from the canteen shall be used for the benefit or recreation of the prisoners"; therefore, these receipts should not have been deposited in the Jail Fund, but should have been accounted for in the Jail Canteen.
- The Jailer did not report annually to the County Treasurer on the Canteen Account.

We recommend the Jailer comply with Technical Audit Bulletin #93-002 by preparing accurate daily check out sheets, making daily deposits, reconciling the daily check out sheets to the daily deposits, and preparing monthly bank reconciliations on the Jail Canteen Account. In addition, the Jailer should maintain proper and accurate documentation for all Jail Canteen expenditures in accordance with Technical Audit Bulletin #93-001 as well as substantiating all profits from the canteen are being used for the benefit or recreation of the prisoners as required by KRS 441.135(1). Finally, we recommend that the jailer prepare an annual canteen report and submit a copy to the County Treasurer as is also required by KRS 441.135(1).

County Judge/Executive Tommy Slone's Response:

Will work with Jailer in the future on canteen.

County Jailer Ronnie Gabbard's Response:

We will comply with procedures as recommended.

JACKSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

Reference Number 2003-3

PRIDE Grant Funds Should Be Expended As Close As Administratively Possible To The Date
Funds Were Received By The County

The County received \$98,000 of PRIDE funds on SuperGrant SG01-03 on July 19, 2002. The disbursement of these funds was not made to the contractor until January 6, 2003. Pursuant to the grant award letter, PRIDE payments are made on a reimbursement basis only; therefore, the \$98,000 of PRIDE funds received by the County should have been expended as close as was administratively possible to the date received by the County and not held in the County's interest-bearing General Fund earning approximately \$1,641 in interest income during the six months. We recommend the County expend federal funds in accordance with cash management procedures stipulated in the PRIDE grant award letter. Furthermore, we recommend the \$1,641 of excess interest earned on the federal cash draw be returned to the appropriate agency.

County Judge/Executive Tommy Slone's Response:

We requested the money from PRIDE and received the draw. The contractor requested me to hold the money till the first of the year. Accumulated interest will be held from this year's PRIDE expenditure.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JACKSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U. S. Department of Commerce</u>		
National Oceanic and Atmospheric Administration- Passed-Through Eastern Kentucky PRIDE, Inc.		
PRIDE Community Grant Program	CF02-10	\$ 50,000
PRIDE Community Grant Program	CF01-15	25,150
PRIDE SuperGrant Program (CFDA #11.469)	M-02183697	<u>200,000</u>
Total U.S. Department of Commerce		<u>\$ 275,150</u>
<u>U.S. Department of the Interior</u>		
Passed-Through State Department for Local Government:		
Land and Water Conservation Program (CFDA #15.916)	21-01221	<u>\$ 5,345</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	\$ 16,625
Chemical Stockpile Emergency Preparedness Program (CFDA #83.549)	Not Available	<u>109,483</u>
Total U. S. Federal Emergency Management Agency		<u>\$ 126,108</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 406,603</u></u>

JACKSON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Jackson County, Kentucky and is presented on the modified cash basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local, Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

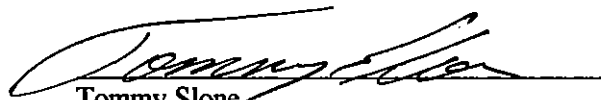
JACKSON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

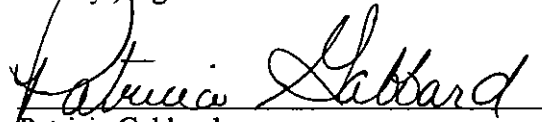
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
JACKSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Jackson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Tommy Slone
County Judge/Executive



Patricia Gabbard
County Treasurer

